

## Message Text

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PAGE 01 STATE 015400  
ORIGIN SS-15

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DRAFTED BY:EUR/SE:RCEWING

APPROVED BY:EUR JSHINN

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FM SECSTATE WASHDC

INFO AMEMBASSY ANKARA 2616

C O N F I D E N T I A L STATE 015400

EXDIS

FOLLOWING REPEAT DEPT TREAS WASHDC O 171750Z ACTION AMCONSUL JERUSAL  
EM  
INFO SECSTATE JAN 17

QUOTE: C O N F I D E N T I A L

EXDIS

FOR VANCE FROM BLUMENTHAL  
STATE TREAT AS EXDIS  
EO 11652: XGDS  
SUBJECT: TURKEY

1. WHILE I REALIZE THAT YOUR DISCUSSIONS IN TURKEY WILL  
FOCUS PRIMARILY ON POLITICAL ISSUES, THE TURKS MAY BRING  
UP SOME ECONOMIC ISSUES. IN VIEW OF THIS POSSIBILITY, I  
AM SENDING YOU OUR ASSESSMENT OF THE CURRENT ECONOMIC  
SITUATION IN TURKEY.
2. TURKEY IS IN THE MIDST OF A SEVERE FINANCIAL CRISIS WHICH  
IS THE PRODUCT OF PAST TURKISH GOVERNMENTS' COMMITMENTS  
TO HIGH DOMESTIC GROWTH RATES IN THE FACE OF AN UNFAVOR-  
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ABLE EXTERNAL ENVIRONMENT. SINCE THE OIL PRICE INCREASES  
OF 1973-74, TURKEY HAS BEEN RUNNING LARGE TRADE DEFICITS  
WHICH HAVE BEEN FILLED BY LARGE INFLOWS OF REMITTANCES  
FROM TURKISH WORKERS AND SHORT-TERM PRIVATE CAPITAL  
UNDER THE CONVERTIBLE LIRA ACCOUNT (CLA) SCHEME. THESE  
ACCOUNTS REPRESENT DEPOSITS BY FOREIGN COMMERCIAL BANKS  
WHICH IN TURN TRANSFER THE FOREIGN EXCHANGE TO

THE TURKISH CENTRAL BANK. THESE ACCOUNTS ARE ON THE ORDER OF \$2.0 BILLION.

3. THIS SITUATION WAS CLEARLY UNSUSTAINABLE AND IN 1977 INFLOWS OF WORKERS' REMITTANCES DECLINED SLIGHTLY AND THERE WAS LITTLE, IF ANY, NET INFLOW OF CLAS. THE PREVIOUS TURKISH GOVERNMENT WAS NOT WILLING TO CUTBACK ON IMPORTS IN LINE WITH REDUCED FINANCING AVAILABILITIES, HOWEVER, AND THE RESULT HAS BEEN DECLINING RESERVES, WHICH HAVE DROPPED TO LESS THAN HALF THEIR LEVEL OF THE BEGINNING OF 1977 AND MOUNTING ARREARAGES ON FOREIGN DEBT PAYMENTS. PRIVATE CREDITORS HAVE BEEN RESTRICTING TRADE CREDITS TO TURKEY WHICH HAS LED TO PRODUCTION SLOWDOWNS IN CERTAIN SECTORS.

4. PRIVATE CREDITORS REGARD THE IMPLEMENTATION OF AN ECONOMIC STABILIZATION PROGRAM, APPROVED BY THE IMF, AS A NECESSARY PRECONDITION TO ANY LARGE INFLOWS OF NEW FINANCING. SUCH A PROGRAM WOULD INVOLVE AN EXCHANGE RATE ADJUSTMENT AND CUTS IN GOVERNMENT EXPENDITURE AND WOULD IMPLY A SLOWER RATE OF GROWTH, SOMETHING WHICH TURKISH GOVERNMENTS HAVE FOUND DIFFICULT TO ACCEPT. IN THE LAST ROUND OF DISCUSSIONS BETWEEN THE PREVIOUS TURKISH GOVERNMENT AND THE IMF LAST DECEMBER, CONSIDERABLE PROGRESS WAS MADE ALTHOUGH SOME PROBLEMS STILL REMAINED IN THE AREA OF GOVERNMENT EXPENDITURES. WITH THE CHANGE IN GOVERNMENTS IN ANKARA THESE DISCUSSIONS ARE CURRENTLY IN ABEYANCE. THE ECEVIT  
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GOVERNMENT IS EXPECTED THOUGH TO TRY TO REACH AN EARLY AGREEMENT WITH THE FUND ON A STAND-BY PROGRAM.

5. IN THE PAST WHEN REQUESTED BY THE TURKISH GOVERNMENT TO INTERVENE IN THE NEGOTIATIONS WITH THE FUND, WE HAVE INDICATED OUR SYMPATHETIC UNDERSTANDING AND OUR WILLINGNESS TO BE HELPFUL AS IS "APPROPRIATE" BUT INDICATED THAT THIS DID NOT INCLUDE INTERVENTION. OTHER GOVERNMENTS HAVE ADOPTED A SIMILAR POLICY OF ENCOURAGING THE TURKISH GOVERNMENT TO REACH AGREEMENT WITH THE FUND AND THE RESULT HAS BEEN AN AWARENESS IN THE GOVERNMENT THAT IT HAD NO CHOICE BUT TO ADOPT DIFFICULT BUT NECESSARY, STABILIZATION MEASURES. IN ADDITION, ANY U.S. ASSISTANCE TO TURKEY TO MEET IMMEDIATE FINANCIAL CRISIS WOULD NEED TO TAKE ACCOUNT OF THE CONGRESSIONAL ENVIRONMENT. THIS SAME ENVIRONMENT ALSO LIMITS GREATLY OUR ABILITY TO ASSIST TURKEY EVEN IF IT IS ABLE TO REACH AGREEMENT WITH THE FUND ON A STAND-BY PROGRAM. IT DOESN'T SEEM TO ME THAT OUR FINANCIAL STAKE IN TURKEY IS GREAT ENOUGH FOR US TO CONVINCE CONGRESS TO OVERCOME ITS CURRENT POLITICAL RELUCTANCE TO AID TURKEY. AS OF THE BEGINNING OF 1977, TOTAL INDEBTEDNESS TO U.S. CREDITORS, BOTH OFFICIAL AND PRIVATE, WAS \$2.6 BILLION.

OF THIS AMOUNT, HALF WAS OWED TO OFFICIAL CREDITORS AND  
HALF TO PRIVATE.

6. YOU MIGHT WISH TO ENCOURAGE PRIME MINISTER ECEVIT TO  
RESUME AS SOON AS POSSIBLE TURKISH DISCUSSIONS WITH THE  
IMF.

UNQUOTE CHRISTOPHER

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, GOVERNMENT DEBTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 19 jan 1978  
**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
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